Volume XVIII

MAY 16
1949

Number 21

As I see it

IS THERE A REAL ESTATE CYCLE?

DURING the period of the later thirties and the early forties, real estate men accepted with enthusiasm the general idea of a long real estate cycle. At that time there was no doubt about the fact that the trend was up and going higher. Since the reports of this company, however, would indicate that the cycle has "topped out" and that the trends for an indefinite period in the future are down, many persons are starting to question and some to deny openly that a cycle exists. This is not surprising, as salesmen - and most real estate men, I think, would classify themselves in that general category - are noted for their optimistic approach to general problems. History, however, has never given great consideration to either optimists or pessimists. Optimism at the wrong time has never solved any problem nor has it caused a boom to continue after the fundamental factors which were causing the boom had disappeared. One of the most pathetically humorous books I have ever read was published in the middle thirties, and was called Oh, Yeah! It consisted entirely of quotations from prominent persons from 1928 to the date of publication, first assuring the general public that the economy was fundamentally sound and, after the collapse started, constantly predicting that the corner had been turned. After each quotation, the actual development of the various indexes of business and the market is shown in contrast with the predictions.

Since I was the first person to give national prominence to the idea that real estate moves in a long cycle, much of the criticism of the cycle theory which is now developing is directed toward me, either by name or implication. This, too, was to be expected and I have no criticism to make so long as the reasoning of the objections is sound. Whether our forecasts at any particular time are popular or unpopular, however, cannot be considered as a valid reason for changing them.

I realize that a "Jeremiah" is never popular. I would get a great deal more fun and a far larger dollar income by being optimistic at the present time on the outlook for real estate and construction. I have gone through this same experience before, however, as I started real estate research in 1928 and was quite pessimistic for the first five or six years of my study. Then, too, many people disagreed violently with my forecasts. I remember one case when I wrote an article for our regular reports in which I said that I thought the United States would be forced from the gold standard, would have to revalue her currency and would never return to the old weight of gold. An executive of a large corporation who had previously told me that our reports were so pessimistic that he kept them locked in his desk where the other people in the organization could not see them, finally wrote in and canceled as a result of this article, as "there is no reason for anyone

Copyright 1949 · by ROY WENZLICK & CO. - Saint Louis

being that pessimistic." Later on he resubscribed and his renewal for the next twelve months was received this week.

In the remainder of this report I would like to ignore the work which has been done by our organization and concentrate on such independent proof as might exist that a real estate cycle of the nature of the one our studies have developed exists.

At the 94th annual meeting of the American Statistical Association on December 31, 1932, Dr. John R. Riggleman of the Division of Building and Housing of the Bureau of Standards of the United States Department of Commerce presented a paper on building cycles in the United States from 1875 to 1932. A revision of this speech appeared in the Journal of the American Statistical Association for June 1933. A still later revision of this study by Dr. Riggleman and Ira N. Frisbee appeared in a book on business statistics, published in 1938 by McGraw-Hill Book Company, which carried the building cycle study back to 1830. A comment in this book on page 331 below the chart states: "The index of building cycles is indicative of the much greater swings that characterize building activity and certain other lines of business that do not move in short cycles like those of general business." The chart shows the first peak of building activity in 1836, the second in 1853 (17 years later), the third in 1872 (19 years later), the fourth in 1890 (18 years later), the fifth in 1909 (19 years later), and the sixth in 1925 (16 years later). The low points occurred in the following fashion: in 1843, in 1864 (21 years later), the next in 1878 (14 years later), the next in 1900 (22 years later), the next in 1918 (18 years later), and the next in 1934 (16 years later). The fluctuations from the peaks to the valleys were many times the fluctuations in general business. The average distance between the peaks of the booms was 17-4/5 years, and the average between the bottoms of the depressions was 18-1/5 years. This comes very close to the 18-year cycle talked about in our reports.

At no place in our reports have we ever indicated that every cycle was 18 years in length. We have frequently pointed out that these cycles have varied from 16 to 21 years in length. At the time that Dr. John Riggleman and I made our initial studies of the real estate cycle, neither one of us knew of the work of the other.

In 1937 Dr. Frank A. Pearson, professor of prices and statistics at Cornell University, published in a book with G. F. Warren on world prices and the building industry a resume of building figures from studies which had been made in many parts of the world. In addition to the studies by Riggleman and those of our organization, he charts and discusses new building in London, England, from 1871 to 1935, which was based on the work of J. C. Spenseley in an article on urban housing problems published in the Journal of the Royal Statistical Society for March 1918, and which was brought up to date for Dr. Pearson by Mr. Spenseley to 1935. Beneath the chart in Pearson's book, and also in the text, appears this statement: "Apparently there are definite periods of over- and under-building in London," a conclusion which is self-evident from the marked cycles on the chart. Pearson also quotes an article by H. A. Shannon, entitled Bricks - A Trade Index, 1785-1849. This appeared in Economica, New Series, No. 3, August 1934. The chart shows bricks produced per capita in England and Wales from 1785 to 1849. The basis for Mr. Shannon's information was tax receipts on the manufacture of brick. Since the tax was small, this is believed by him to represent total production. Since most of the bricks were used in construction and most of the houses were

brick, the fluctuations probably show in rather accurate fashion the fluctuations in new building. Beneath the chart Pearson has this comment: "There were fairly definite cycles in brick production about 16 to 18 years in length." Pearson also reproduces in his book a chart on the number of houses built in Glasgow, Scotland, from 1863 to 1936, based on a study of A. K. Cairncross called "The Glasgow Building Industry," published in the Review of Economic Studies in October 1934, and brought up to date by later figures obtained from sources in Scotland. The chart shows a very marked and regular cycle, and Pearson's comment below the chart which he reproduced was: "Apparently there is a regular cycle in construction in Scotland about 30 years long." The difference in the length of the cycle in Scotland is quite interesting, but there can be no question of its regularity.

Working directly from figures compiled for the city of Hamburg, Germany, by the Statistisches Landesamt, Pearson charts the total number of new buildings constructed in the city of Hamburg, Germany, from 1885 to 1935. Again these data show a regular cycle and Pearson comments below the chart: "Peaks in construction occurred in 1890, 1910 and 1928; low points occurred in 1897, 1919 and 1934. The peaks were 20 and 18 years apart; the low points, 21 and 16 years."

Through the help of Bertil Nystrom, K. Socialstyrelsen, Byrån för Socialstatistika, Specialundersökningar M. M., Pearson secured figures on the number of rooms in new buildings completed in Stockholm, Sweden, from 1880 to 1936. When charted this shows a definite cyclical pattern with the peaks of construction occurring in 1885, 1904 and 1932, and with the low points occurring in 1893 and 1920. It will be noticed that the length between the peaks varied from 19 to 28 years, and the distance between the low points was 27 years.

In a monograph, "The Farm Outlook for Saskatchewan, 1937," published in March 1937, W. Allen and E. C. Hope discuss the number of buildings erected in Montreal and the value of permits for 35 Canadian cities. From this material Professor Pearson charts building activity in the city of Montreal and 35 cities of Canada from 1865 to 1936. Beneath the chart, which is definitely cyclical in nature, he has this statement: "The peaks of building activity in the city of Montreal averaged 19 years apart and the low points 19 years."

In May of 1932 the Journal of Land and Public Utility Economics published an article by Dr. Lewis A. Maverick called "Cycles in Real Estate Activity." This article charted new lots subdivided, ratio of deeds per year to estimated population, and various other real estate series from 1865 to 1929. Dr. Maverick explains in this article the peaks and valleys in terms of local happenings, as there was no evidence at the time that he made this study that these cycles were really national. The peaks and valleys, however, coincide with a definite cycle with peaks on his chart in 1869, 1889, 1906 and 1926. The low points occurred in 1882, 1898, and 1918. The peaks averaged 19 years apart and the low points averaged 18 years.

In the February 1933 Journal of Land and Public Utility Economics appeared an article by Dr. Lewis A. Maverick on cycles in real estate activity in Los Angeles County. This article studied fluctuations in subdividing and in the recording of deeds from 1850 to 1931. The peaks in the cycles which he shows on deeds occurred in 1856, 1876, 1888, 1907 and 1924. The valleys were at their bottoms in 1864, 1880, 1901, 1918, and a continuation of his data shows the next bottom at 1932.

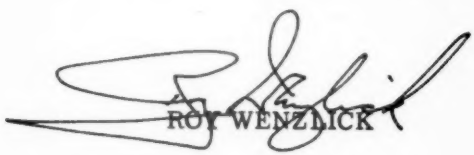
The periods between the booms ran 20 years, 12 years, 19 years and 17 years, or an average of 17 years each. The periods from the bottoms of the depressions ran 16 years, 21 years, 17 years and 14 years, or an average of 17 years. At the conclusion of this article the following paragraph occurs: "On the whole, this study has confirmed the findings of the earlier study. The cycles discovered for Los Angeles County, although they differ in detail, are in the broader outlines similar to those found in San Francisco and Alameda Counties."

The Lawyers Title Corporation of New York in the fall of 1946 published a chart showing the totals for which all land and buildings on Manhattan Island might have sold under price levels prevailing for each year. These hypothetical market values for the Island are computed from considerations paid in all sales in relation to assessed values at the time of the sale. The explanation of this chart included the following description: "Each cycle in the past has been distinctively individual. No regular pattern has been followed in degree of rise and fall or in duration. Booms have materialized both gradually and abruptly, attaining peaks that have ranged from 84 to 400% above previous depression lows. Depressions have lasted from 1 to 16 years and longer before all losses have been recovered."

This chart is not a chart of real estate activity and from that standpoint is not comparable with the boom and depression charts published by our company, but I think it is significant that when this chart is analyzed carefully it is found that between the bottoms of the dips in real estate values the period ran 18 years, 17 years, 22 years, 21 years, and 25 years, with an average of 20-3/5 years. Between the peaks of real estate values as shown on this chart were intervals of 21 years, 16 years, 20 years, 13 years and 24 years, or an average of 18-4/5 years.

There doubtless have been many other studies which could be used to show the presence or absence of a real estate cycle in various communities. With some of these we are familiar and will attempt to discuss them in detail when time and space permit.

Regardless of whether the average length of a real estate cycle is determined to be 18-1/3 years or some greater or lesser amount, the fact remains (and I sincerely think it is a fact) that in all cities where figures are available, either in this country or in other parts of the world, when the trend turns decidedly there is a very pronounced probability that the new direction will be followed for a considerable period of years. The trend in real estate activity has turned sharply downward since 1946. It is still 15% above the long-term normal, but our advice to sell real estate is based on the improbability of a major reversal in trend occurring in the very near future.



ROY WENZLICK